



Risk Control and Management Policy - Lar España Real Estate SOCIMI

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Prepared by	Date	Approved by	Date

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RISK CONTROL AND MANAGEMENT POLICY

The Board of Directors of Lar España Real Estate SOCIMI, S.A. and its Group companies (“LRE”) is responsible for establishing the Risk Control and Management Policy (the “Policy”) as the framework document that will allow it to identify the basic principles and rules required to control and manage risk at the Organisation, maintain the necessary internal control systems and carry out regular checks on these systems.

1. Purpose

The purpose of this Policy is to establish the general framework for action to control and manage all forms of risk faced by LRE, and it acts as a useful tool to assist the Board of Directors and the Management in their decision-making processes, allowing them:

- To prioritise their strategic objectives.
- To align the Organisation's targets.
- To refresh the Organisation's strategy in order to ensure that it remains aligned with the expectations of its stakeholders.

It also defines the position that Risk Control and Management occupies within the Corporate Governance structure and includes a definition of the roles performed and responsibilities held by the different members of the Organisation who play a part in the control and management of risk.

2. Effect and Applicable Scope

The Risk Control and Management Policy applies to Lar España Real Estate SOCIMI, S.A. and its Group companies, and to all the activities engaged in by the Organisation.

Its scope covers all the people who form part of the Organisation, who are obliged to comply with the guidelines, policies and other procedures that result from the implementation of both this Policy and the Integrated Risk Management System (IRMS), including all the external agents who work with LRE in its important processes and the performance of its business activities (Investment Managers, Asset Managers, Property Managers, External Accountants, etc.).

3. Basic Principles

LRE's Board of Directors is committed to devoting all of its know-how to ensuring that any significant corporate risk involved in the Group's business activities and other endeavours is properly identified, measured, prioritised, managed and controlled, and to establishing, through this Risk Control and Management Policy, the mechanisms and basic principles required to properly control and manage such risk at a level that allows the Organisation:

- a) To make the monitoring of risk an integral part of the Organisation's management, through the definition of strategy and risk levels;
- b) To achieve the strategic objectives established by the Group, and control volatility;

- c) To maintain a careful separation of powers between the departments that manage risk and those that are responsible for its analysis, monitoring and supervision, providing adequate levels of independence;
- d) To provide the regulators and main stakeholders with transparent reports on the risks faced by the Group and its operational units, and on the performance of the systems implemented to control and monitor such risks;
- e) To protect the Organisation's results and reputation at Group level;
- f) To defend the interests of shareholders, customers and other Stakeholders of companies in the Group;
- g) To ensure corporate stability and financial strength in a sustained way over time;
- h) To comply with all applicable legal and regulatory requirements, as well as with the values and rules set out in the Group's Code of Conduct, which applies a principle of zero tolerance to engagement in illegal activities and situations of fraud.

4. Roles and Responsibilities

The Integrated Management of Risk affects all of LRE's personnel, and it is therefore a necessary condition that the Risk Control and Management Policy must define an organisational approach to Risk Management that is in line with LRE's organisational structure and corporate culture.

The main players in the Integrated Risk Management System (IRMS) are as follows:

- Process Owner.
- Risk Manager / Risk Owner.
- Internal Auditing Department.
- Audit and Control Committee.
- Board of Directors.

Process Owner

Process Owners are one of the key components of the IRMS, since their in-depth knowledge and permanent contact with the processes that it contains means that they can offer warnings about the potential occurrence of risk events both quickly and efficiently.

Furthermore, controls are carried out as part of these processes, meaning that Process Owners are responsible for ensuring not only that the controls are carried out, but also that they are completed in the way in which they have been defined. They can perform this duty directly themselves, or indirectly through control owners.

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Process Owners must also monitor the Key Risk Indicators (KRIs), checking that they fall within the established tolerance limits.

The Process Owners will provide the Risk Manager / Risk Owner with information about the aforementioned actions as regularly as required.

Risk Manager/Owner

The Risk Manager/Owner is the person with executive powers within the Company who is charged with receiving, analysing and consolidating the risk information prepared by Process Owners.

The Risk Manager/Owner is responsible for identifying new events, compiling and assessing the information on Key Risk Indicators (KRIs) and controls provided by the Process Owners, and proposing action plans, where applicable.

He/she will subsequently report all this to the Internal Auditing Department, which will combine it with the information it has obtained as the result of its powers in this area to create the “**Risk Data Files**”, which will at least contain the information described in Schedule V of the Risk Management Manual, including: Description of the risk, Risk Manager, the corporate objective affected, inherent and residual levels of risk, Key Risk Indicators (KRIs), the Controls established for each process, the processes affected and the people responsible for those processes, and any action plans that may be appropriate.

These Risk Data Files must be updated by the Director of Internal Auditing (DIA) with the information supplied by the Risk Manager/Owner at least once a year.

Internal Auditing Department

The Internal Auditing Department assists the Audit and Control Committee in the performance of its duties and responsibilities relating to the supervision and assessment of the Group's Integrated Risk Control and Management System, and it also forwards alerts, recommendations and conclusions to the Audit and Compliance Committee.

Based on the information supplied by the Risk Managers/Owners, the Director of Internal Auditing (DIA) will inform the Audit and Control Committee, at least once a year or at the Committee's request, about the performance of the Risk Management Model and any progress made in this area (Risk Maps, Risk Data Files, the results of controls carried out or the KRIs measured, etc.), through engagement in the following activities:

- Identifying and assessing the risks, including tax risks, that might prevent the Organisation from achieving its business targets and updating the Group Risk Map annually;

- Identifying the processes in which these risks and controls arise (critical processes);
- Assessing the effectiveness of the controls, action plans and activities engaged in to respond to the risks affecting the Organisation.

Audit and Control Committee

The duties of the Audit and Control Committee include assisting the Board of Directors in its oversight of the management and control of the Group's financial and non-financial risk, including tax risk.

According to the provisions contained in Article 5 of the Audit and Control Committee regulations, this Committee has the following specific duties with regard to risk policy and management:

- Identifying the various types of risk (operational, technological, financial, legal and reputational, including risk relating to corruption) which the Company faces, including, among the financial or economic risks, contingent liabilities and other off-balance sheet risks;
- Defining a model for the control and management of risk, based on different levels;
- Determining the risk levels the Company sees as acceptable;
- Identifying the measures in place to mitigate the impact of identified risk events should they occur;
- Identifying the internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risk.

Finally, it should be mentioned that the Audit and Control Committee informs the Board of Directors about the actions it has taken in this regard throughout the financial year.

Board of Directors

The Board of Directors is the body that is responsible for approving the Group's Risk Control and Management Policy and establishing the level of risk that is acceptable from time to time.

To this end, as set out in Article 5 of the Board of Directors Regulations, the Board reserves the power to approve policy for the control and management of financial and non-financial risk, including tax risk, and to oversee the internal reporting and control systems.

The Board of Directors will be informed at least once a year, through the Audit and Control Committee, of any action taken with regard to the management of risk and oversight of the internal control systems.

5. Integrated Risk Management System

The Risk Control and Management Policy and the basic principles it contains are implemented in the document entitled “**Integrated Risk Management System**” (**IRMS**), and reinforced by all the component parts of the governance model described above, based on the proper definition and allocation of powers and responsibilities at various levels, and on the use of suitable procedures, methodologies and supporting tools for the activities at various levels that form part of the system, the different elements of which are described below:

A) On the one hand, there is a **Risk Management Model** in which:

- Firstly, the components and activities included in the Risk Management process are described and analysed:
 - Identification and assessment of the risks, including tax risks, that may prevent the Organisation from achieving its business targets,
 - Identification of controls,
 - Identification of the processes in which these risks and controls arise (critical processes),
 - Design of action plans in response to the risk in question, and
 - Assessment of the effectiveness of the controls and activities engaged in to respond to the risks affecting the Organisation,
- Secondly, the organisational approach and roles and responsibilities required for an Integrated Risk Management System are defined. Without these, the above activities would be uncoupled from or not aligned with the actual risk faced by the Organisation, which would consequently increase the possibility that business opportunities might not be achieved, and risks might materialise.
- Thirdly, a Monitoring Model (Information and Reporting) is defined for all Risk Management activities.
- Finally, criteria are established for updating the Risk Management System.

B) On the other hand, there is a **Risk Management Manual**, which includes the Risk Maps and the templates and documents to be used to carry out the various activities, and which also defines other important practical aspects of the Risk Management System.

6. Updates to the Risk Control and Management Policy and the IRMS

Risk Management should not be seen as a static process but rather as one that is ongoing and dynamic, as are the events that could affect the achievement of the Organisation's targets. This is why it is necessary to make regular reviews and updates of this Risk Control and Management Policy and the IRMS, as levels of maturity in the area of the Organisation's Risk Management evolve.

In this regard, and with a view to ensuring that this Policy and the IRMS remain up to date and can be used as a versatile tool to assist the Management and the Board of Directors in their duties, a review will be carried out regularly, **and at least once a year**, of the elements that make up this Policy and the IRMS. In particular, the **Risk Map** will be updated, with the inclusion, amendment or discounting of risk, as required as a result of any changes to the Organisation's strategic objectives or organisational structure, the regulations in force, etc.

The entire LRE monitoring and reporting model is described in the IRMS, which is based on the **Risk Data Files** and which acts as a document that brings together the key information relating to each risk.

7. Approval and entry into force

This Risk Control and Management Policy has been approved by the Board of Directors of Lar España, following its approval by the Audit and Control Committee, and it came into force on the day following its approval.